

U.S. Small Business Administration

PRE-DISASTER MITIGATION LOAN PROGRAM

The application filing period for the 2003 program is from June 16, 2003 to July 16, 2003.

The purpose of the Pre-Disaster Mitigation Loan Program is to make low-interest; fixed-rate loans to eligible small businesses for the purpose of implementing mitigation measures to protect business property from damage that may be caused by future disasters. The program is a pilot program, which supports the Federal Emergency Management Agency (FEMA) Pre-Disaster Mitigation Program. SBA's Pre-Disaster Mitigation Program is available to businesses whose proposed mitigation measure conforms to the priorities and goals of the mitigation plan for the community, as defined by FEMA, in which the business is located. Because the program has been approved only for limited funding, approved loan requests will be funded on a first-come, first-served basis up to the limit of the program funds.

A mitigation measure is something done for the purpose of protecting real and personal property against disaster-related damage. Examples of mitigation measures include retaining walls, sea walls, grading and contouring land, elevating flood-prone structures, relocating utilities, and retrofitting structures against high winds, earthquakes, floods, wildfires, or other disasters.

Credit Requirements: SBA's assistance is in the form of loans, so SBA must have a reasonable assurance that such loans can and will be repaid.

Credit Elsewhere: Federal law requires SBA to determine whether credit needed to fund the mitigation measure is available from non-government sources without creating undue hardship to the applicant. The law calls this *credit elsewhere*. Because Pre-Disaster Mitigation Loans are taxpayer-subsidized, applicants with the financial capacity to fund the project with their own resources are not eligible for Pre-Disaster Mitigation Loan assistance. SBA makes this determination at the time the loan application is processed. Generally, SBA determines that over 90 percent of loan applicants do not have credit elsewhere.

Collateral Requirements: Loans of \$10,000 or less do not require collateral. Loans in excess of \$10,000 require the pledging of collateral to the extent that it is available. Generally the collateral will consist of a first or second mortgage on the business property, although collateral may be required on other property, including property personally owned by the business' principals. SBA takes real estate as collateral where it is available. In addition, personal guaranties by the principals of the business are required. The SBA will not decline a loan for lack of collateral, but you must pledge available collateral.

Interest Rate: The interest rate on a Pre-Disaster Mitigation Loan will be fixed at 4 percent per annum or less. The exact interest rate will be stated in the Federal Register notice announcing the filing period.

Loan Term: The law authorizes loan terms up to a maximum of 30 years. SBA determines the term of each loan in accordance with the borrower's ability to repay. Based on the financial circumstances of each borrower, SBA determines an appropriate installment payment amount, which in turn determines the actual term.

Insurance Requirements: To protect each borrower and SBA, SBA requires borrowers to obtain and maintain appropriate insurance. Borrowers of all secured loans (Pre-Disaster Mitigation Loans over \$10,000) must purchase and maintain full hazard insurance for the life of the loan. Borrowers whose business property or collateral property is located in a Special Flood Hazard Area (SFHA) must also purchase and maintain flood insurance for the full insurable value of the property for the life of the loan.

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Frequently Asked Questions

How much can I borrow with a Pre-Disaster Mitigation Loan?

Your business, together with its affiliates, may borrow up to \$50,000 per fiscal year (ending September 30) for the fiscal years 2003 and 2004, the years the pilot program is in effect. The loan may be used to fund only those projects that were part of your approved loan request. SBA will consider mitigation measures costing more than \$50,000 per year if you identify, as part of your Pre-Disaster Mitigation Loan application, sources of funding for the costs above \$50,000.

What types of mitigation measures can I pay for with a Pre-Disaster Mitigation Loan?

To be eligible under the Pre-Disaster Mitigation Loan program, each of your proposed mitigation measures must satisfy the following criteria:

- A.) The mitigation measure must serve the purpose of protecting your commercial real property (building), leasehold improvements or contents from damage that may be caused by future disasters; and
- B.) The business' mitigation measure must conform to the priorities and goals of the mitigation plan for the community, as defined by FEMA, in which the business is located. As part of your application package, you must provide a written statement of confirmation from a local or State Mitigation official. You may visit the FEMA website at www.fema.gov/fima/hmgrp/statedir.shtm for a listing of all State Emergency Hazard Mitigation Officers. A blank Emergency Management Coordinator Certification form will be included in your Pre-Disaster Mitigation Loan Application. You may obtain a copy of the form at www.fema.gov/doc/fima/planning_sba_certifi.doc. This form must be completed and included in the business' SBA Pre-Disaster Mitigation Loan Application package. If you do not have access to a computer you may call the 800 number of the Disaster Area Office in whose territory you reside. The appropriate 800 telephone number is listed at the end of this fact sheet. (The State or local hazard mitigation coordinator's written statement does not constitute an endorsement or technical approval of the project and is not a guaranty that the project will prevent damage in future disasters, or that an SBA loan will be approved).

Can I use SBA Pre-Disaster Mitigation Loan funds to relocate my business?

Yes, you may request a Pre-Disaster Mitigation Loan for relocation of your business if:

- A.) Your commercial real property (building) is located in a SFHA; and
- B.) Your business relocates outside the SFHA, but remains in the same community.

Is my business eligible to apply for a Pre-Disaster Mitigation Loan?

To be eligible to apply for a Pre-Disaster Mitigation Loan your business must meet each of the following criteria:

- A.) Your business' proposed mitigation measure must conform to the priorities and goals of the mitigation plan for the community, as defined by FEMA, in which the business is located.
- B.) If you are proposing a mitigation measure that protects against a flood hazard, the business must be located in a SFHA;
- C.) As of the date you submit a *complete* Pre-Disaster Mitigation Loan application to SBA, your business, along with its affiliates, must be a small business concern as defined in the Code of Federal Regulations, Title 13, part 121 (13 CFR 121, available from the Disaster Area Office listed below, or at <http://www.sba.gov/library/lawroom.html> .
- D.) Your business must have operated in its present location for at least one year before submitting its application;
- E.) Your business, with its affiliates and owners, must not have credit elsewhere, as defined on the first page of this Fact Sheet. SBA makes this determination based on the information your business submits as part of its application; and
- F.) If your business owns and leases out real property, the mitigation measures must be for the protection of a building leased primarily for commercial rather than residential purposes (SBA will determine this based on a comparative square footage).

When should I apply for a loan?

SBA will publish a notice in the Federal Register announcing the availability of Pre-Disaster Mitigation Loan funds. The notice will designate a 30-day period with a specific opening and filing deadline, as well as the locations for obtaining and filing applications. In addition to the Federal Register, SBA will work with FEMA and the local media to inform potential applicants how to obtain loan applications. SBA will not accept any applications after the filing deadline; however, SBA may announce additional application periods each year, depending on the availability of program funds. *The filing period for the current program year begins June 16, 2003 and ends July 16, 2003.*

How do I apply for a Pre-Disaster Mitigation loan?

You must submit a *complete* Pre-Disaster Mitigation Loan Application (Form 5M) within the announced filing period. The complete application serves as your loan request. A complete application must include **all** of the filing requirements specified on the application form. It must be submitted to the Disaster Area Office which serves your location, listed at the end of this Fact Sheet.

I've heard that SBA loan applications are complicated and hard to complete. Is this true?

No. The application form asks you for the same information about the business and its substantial owners and managers that generally is required for a bank loan. If you need help, SBA personnel will explain the forms and give you assistance at no charge. You may use the services of accountants, attorneys, or other representatives if you wish, but be sure they are reliable and that their fees are reasonable. You must report the use of a representative and the fees charged on your loan application.

Must I use my own money or try to borrow from a bank before I come to SBA?

No. The resources of the business and its principals will be considered in determining the ability of the business to fund the project without the assistance of the Federal government.

What selection criteria will SBA use?

SBA will date stamp each application when we determine that it is complete. SBA will fund loan requests meeting the selection criteria on a first-come, first-served basis using this date stamp until it has allocated all program funds. Applications received on the same day will be ranked by a computer-based random selection system to determine their funding order. SBA will notify you in writing of its funding decision.

If your loan request meets the selection criteria, but SBA is unable to fund it because all program funds have been allocated, your request will be given priority, based on the original filing date, once more program funds become available. However, if six months have passed since SBA reviewed your application, SBA may request updated or additional financial information.

What happens if SBA declines my loan request?

If SBA declines your loan request, SBA will notify you in writing of the reason(s) for its decision. It will also advise you of the procedures to request reconsideration of the decision. If you request reconsideration and SBA reverses its decision, SBA will use the date on which it accepted your request for reconsideration as the basis for determining the order of funding.

How soon can I expect my money?

On approval and funding of your loan request, we will send you loan closing documents describing all loan terms and conditions. Once you return the completed and signed loan closing documents, we can begin to disburse the funds.

How do I obtain an application?

Contact the Disaster Area Office, listed below, which serves your state:

Disaster Area 3 Office
4400 Amon Carter Blvd., Suite 102
Ft. Worth, TX 76155
1-800-366-6303

Serves: Arkansas, Colorado, Iowa, Kansas, Louisiana, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah and Wyoming.